



September 16, 2006

STATEMENT OF
RICHARD COTTA
On behalf of
CALIFORNIA DAIRIES, INC.

TESTIMONY BEFORE
THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON DEPARTMENT OPERATIONS,
OVERSIGHT, DAIRY, NUTRITION AND FORESTRY

FIELD HEARING
SEPTEMBER 16, 2006
IN FRESNO, CALIFORNIA

Good Morning Chairman Gutknecht and Members of the subcommittee. My name is Richard Cotta. I am the Senior Vice President for Government and Producer Relations for California Dairies, Incorporated. I am testifying today on behalf of the 680 dairies who are the owners of California Dairies, Incorporated.

California Dairies, Inc. Background

We are the largest dairy co-op in the largest dairy state in America. Our co-op is the result of a successful 1999 merger of three of California's most financially successful cooperatives; California Milk Producers, Danish Creamery and San Joaquin Valley Dairymen, which all had roots dating back to the turn of the 20th century. Today, our producer-owners have over \$100 million in equity invested in the co-op.

We ship over 16 billion pounds of milk annually. Our owners have dairies located from San Diego County in the south to Marin County in the north, with most of the production occurring in the San Joaquin Valley from Kern County to San Joaquin County. We also own five processing plants, located strategically throughout our production regions and plant 6 is under construction in Visalia.

We also have two wholly-owned subsidiary companies: Challenge Dairy Products, which produces a complete line of butter products to the retail trade and food service business; and Los Banos Foods, which manufactures and sells cheddar cheese for manufacturing. We are also the major shareholder in Dairy America, Incorporated, which handles about 2/3 of all the milk powder in the U.S. and exports milk powder to over 40 countries.

Dairy Policy and the Next Farm Bill

I appreciate the opportunity to testify about the current status of national farm policy important to dairy cooperatives and our recommendations for the next farm bill.

Trade Policy

I think it is important to first talk about the next farm bill in the context of trade. With the recent events surrounding the Doha WTO round, it looks like there will not be a new trade agreement in place before the next farm bill is written. However, we continue to support the U.S. proposal that was submitted to the WTO back in 2002, which calls for the elimination of export subsidies and correction of inequities in market access and domestic support. The rationale for the U.S. proposal is as important and relevant today as it was five years ago:

- The 1994 WTO Uruguay Round agreement created many trade disparities because many countries were allowed to continue with extensive levels of support, which continue to exist today. These inequities have left the U.S. market relatively open to subsidized competition from abroad, while denying our dairy industry the same opportunities to develop new markets overseas.

- The U.S. proposal is designed to correct inequities, through a balanced approach to 3 key areas: elimination of export subsidies, increases in market access, and reductions in domestic support.
- A very key point regarding progress in these areas is the relative levels with regard to each of these issues. For instance, the European Union continues to be able to provide over 1 billion dollars in dairy export subsidies annually, which is 100 times more than U.S. levels. Correcting inequities in this instance will require more than a simple agreement for both of us to cut our subsidies by 50 percent, for instance. That would still leave the EU with the ability to spend \$500 million, while the U.S. would essentially have no export subsidy spending.
- Similarly, many of our trading partners—the EU, Japan, and Canada for instance—still maintain triple-digit tariff rates that are simply a de facto export ban, because the tariffs are so prohibitive. Because U.S. tariffs are relatively low, if a trade deal simply calls for a percentage reduction by everyone, there will continue to be severe trade inequities that exist.
- Finally, with respect to domestic support, we feel strongly that allowing other countries to maintain “Amber” box and “Blue” box spending that is higher than our allowable aggregate levels would be extremely detrimental to our dairy producers. Remember that our limit is around \$19 billion; the EU can access \$60 billion in amber box payments and has an unlimited ability for blue box programs, both of which are trade distorting.

In light of the continued concerns we have about existing inequities in world dairy trade, we are very supportive of the efforts of USTR and USDA in enforcing our rights in our existing trade agreements. Mexico is a big market for us, and we are keenly interested in the situation with Mexico this year. The Mexican government significantly delayed issuing import licenses for dairy products, which it is obligated to do under both WTO and NAFTA.

Additionally, there are a wide variety of non-tariff trade barriers—sanitary and phyto-sanitary issues and food labeling, to name just a couple—that continue to create barriers for us in finding new markets, and we really appreciate the efforts of USTR and USDA in dealing with these situations when they arise.

Absent a new trade agreement, we urge Congress to reauthorize the Dairy Export Incentive Program in the next farm bill. More importantly, we would urge Congress to consider some modifications to the program to ensure that it is effectively and aggressively used by USDA to us continue to develop new markets and compete in markets where U.S. products are otherwise not competitive because of the presence of subsidized products from other countries. Additionally, we support the reauthorization and funding of the Market Access Program, and the Foreign Market Development Program.

The final issue relating to trade that I want to mention is imports, and there are two areas that I want to briefly discuss. The first is the issue of assessing dairy imports for our research and promotion programs. This was included in the 2002 farm bill but never

implemented because of concerns about whether it would pass muster under the WTO rules. We urge Congress to take whatever action is necessary in the next farm bill to get this corrected so that the dairy importers can be assessed their fair share. They have been getting free rider benefits from our research and promotion activities for years, and it is past time to correct this inequity.

The second import issue is milk protein concentrates (MPCs). Imports of MPCs have increased phenomenally in the past few years, and these products are clearly displacing domestic milk products. We have the capacity to produce MPCs ourselves, but we cannot do so under current market conditions, which are largely due to heavily subsidized imports. We think the U.S. policy should be one that encourages and allows growth in our domestic capability to produce MPCs, rather than outsource yet-another portion of an industry to other countries. This could be achieved either through establishing a tariff on imported MPCs, or through some kind of a processing subsidy for domestic MPC production. We urge you to consider this during the next farm bill.

The Commodity Credit Corporation ("CCC") Price Support Program Works and Should Remain Intact

We believe that the current dairy price support program, under which CCC supports the price of milk at \$9.90 per hundredweight and the price of nonfat dry milk of approximately \$.90 per pound, have served the industry very well, and should be continued in the next farm bill.

These support levels do not guarantee a profit for any dairy producer; indeed, these purchase prices are still below everyone's cost of production. However, the price support program does give our industry an avenue for dealing with situations where supply and demand are out of balance without leaving dairy producers in permanent financial ruin.

We believe that the price support program also represents a good Federal policy because the benefits outweigh the costs. The best recent illustration of this occurred right after the 2002 Farm Bill was signed. The gross cost of the dairy purchase program between July 2002 and June 2003 (a period of 25-year low dairy prices) was approximately \$600 million, excluding revenues received by USDA for selling product back into the market and the value of any products used in donation programs. However, industry estimates are that, without the dairy price support program, producer prices would have been about 1/3 lower, which would have resulted in \$2.4 billion reduction in income for dairy farmers during that time.

When dairy prices are above the CCC purchase levels, there is no cost to the Federal government. There have been almost no CCC purchases or costs during fiscal year 2005 and the first half of fiscal year 2006, proving that the program is truly a stand-by safety net program. The National Milk Producers Federation ("NMPF"), of which we are a member, estimates that the dairy price support program, as of June 2006, has prevented a \$3.5 billion loss in dairy farmer income, at a gross cost of product purchases of approximately \$1.1 billion.

One other issue within the dairy price support program that merits some attention is what is commonly called the “butter powder tilt,” which is the relative support prices between butter and nonfat dry milk. The 1996 Farm Bill allowed the Secretary of USDA to make adjustments to the tilt not more than twice a year, and this same authority was continued in the 2002 Farm Bill. We understand the need for the Secretary to have some discretion in adjusting relative prices in order to minimize costs to CCC, as he is directed to do by the law. However, from a business perspective, changes to the butter/powder tilt are extremely disruptive. When there is even a rumor about the Secretary contemplating a change to the ratio, there is often a chilling effect on pending dairy product sales and purchases, because even a small change in the tilt can have a dramatic economic effect on pending transactions. Accordingly, we are in favor of continuing to limit the authority of the Secretary to make no more than two changes per year, and would support a limit of once per year.

The dairy price support program is efficient and effective, and we believe that it is the most equitable dairy program because it treats all producers the same, regardless of size or location. We strongly support the continuation of the dairy price support program at current levels in the next farm bill.

The Milk Income Loss Compensation (“MILC”) Program Should Be Terminated

During the formulation of the 2002 Farm Bill, we were supportive of NMPF’s efforts to include a supplemental payment component for Class III (cheese) and Class IV (butter and nonfat milk powder) as part of the dairy safety net even though California has its own state marketing order system. However, as you well know, Congress enacted the MILC program instead.

The MILC program is fairly divisive within our industry, due to the fact that it mainly benefits small producers. Because the producers in our co-op do not receive much benefit from the program, we believe that the Federal resources that have been devoted to the program would be more effectively used in other ways. Put another way, we are certainly not in favor of extending the MILC program if it comes at the expense of the dairy price support program.

Conservation Programs Are Vital

California, and the San Joaquin Valley in particular, is at the forefront of just about every environmental issue being faced by agriculture producers today. We are constantly being faced with a barrage of issues dealing with clean air and clean water, with the end result usually involving more regulatory costs of compliance to our producers.

We are very supportive of the Environmental Quality Incentives Program (EQIP), which Congress reauthorized as part of the 2002 Farm Bill. Projects funded by this program in California are helping our producers to cope with the continually-increasing costs of complying with environmental regulations. We can assure you that any additional

funding or increases in the cost-share allowance you can provide for this program will be put to good use.

Because The Conservation Security Program (CSP) is so limited in the number of watersheds in which it is being used, we do not have any way to evaluate its effectiveness. We would hope that, if the program is continued in the next farm bill, we can work with Congress to expand the program so that it can be beneficial to dairy producers who want to contribute to watershed quality improvements, which we all do anyway.

Environmental Research Is a High Priority

The last several farm bills have continued to emphasize the need for good research in a variety of areas, all of which are important to agriculture. For the next farm bill, we believe that we need to significantly increase the focus of our research efforts in the environmental area. For example, in California we are currently doing air quality research on dairy farms to determine the sources and levels of volatile organic compound emissions. One research initiative actually involves measuring methane emissions from dairy cows inside of a sealed chamber; other efforts include looking at methane emissions from feed piles. The dairy industry has recognized this need nationally as well. Last year the industry asked Congress to allow us to use a small portion of our dairy research and promotion check off dollars for environmental research associated with EPA's consent agreement, which is vitally needed by the industry to get some good science as we continue to look for ways to control and understand how greenhouse gases work.

We think the need to focus research into this area will help us to better direct our conservation program dollars. For instance, if our current research ends up showing that different management practices with respect to silage piles can result in more methane emission reductions than covering a manure lagoon, the eligible activities under EQIP could be expanded to include dairy feed management practices in order to encourage producers to adopt these practices.

The dairy industry, along with the rest of the agriculture sector, knows that our best bet in being able to minimize the costs of environmental regulation is to make sure we have good science to back up any of the decisions we make with respect to air and water quality. By including environmental research as a priority in the next farm bill, you will be helping to ensure that we have sound science to back us up as we address environmental issues.

Federal Marketing Orders

Our producers operate under California's state milk marketing order program. Because of this, we do not take positions on proposals to reform or change Federal milk marketing orders. If you make changes to the Federal marketing order structure that would necessitate a change in our system, our system allows both producers and processors to request a hearing by the California Department of Food and Agriculture. Within 60 days,

we could have a decision on whether a change will be made or not. We may not like the result, but at least we have a system where we can get an answer in a relatively short time, which would minimize any potential adverse effects that might be created by a significant change in the Federal order system.

Thank you for the opportunity to testify today.

**Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form**

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: RICHARD L. COTTA
Address: PO BOX 2198, LOS BANOS, CA 93635
Telephone: 209-826-4901 ext 14

Organization you represent (if any): CALIFORNIA DAIRIES, INC.

- 1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: _____ **Amount:** _____

Source: _____ **Amount:** _____

- 2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:**

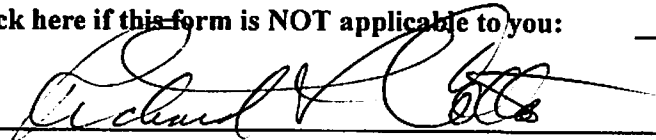
Source: _____ **Amount:** _____

Source: _____ **Amount:** _____

Please check here if this form is NOT applicable to you:

X

Signature:



* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

**Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses**

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: CALIFORNIA DAIRIES, INC. (RICHARD L. COTTA)
2. BusinessAddress: PO BOX 2198
LOS BANOS, CA 93635
3. Business Phone Number: 209-826-4901 ext 14
4. Organization you represent: CALIFORNIA DAIRIES, INC.
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

**Richard L. Cotta
PO Box 2198
Los Banos, Ca 93635
209-826-4901 ext 14**

Richard Cotta is Senior Vice President for Government Affairs and Producer Relations for California Dairies, Inc. Richard has been selected as the new Chief Executive Officer and President of the company beginning January 1, 2007. CDI is a dairy cooperative with \$2.5 billion in sales.

**1993 – 1999 – General Manager, San Joaquin Valley Dairymen
1984 –1993 – Executive Vice President, Western United Dairymen
1980– 1984 – Executive Vice President, United Dairymen of California**

Currently on the Board of Directors

**1992 – Present – Alliance of Western Milk Producers
2001 – Present – National Milk Producers Federation
2001 – Present – Community Alliance for Responsible Environmental Stewardship
CARES – (Chairman)**

Past Board of Directors

**1993 – 1998 – California Creamery Operators Association (Chairman)
1994 – 1998 – California Dairy Research Foundation
1995 – 2000 – U.S. Dairy Export Council
1997 – 2005 – National Holstein Foundation
1998 – 2000 – Dairy America (Chairman)
1999 – 2002 – Challenge Dairy Products, Inc.**

Other Service Activities

**1994 – Present – U.C. Davis – Deans Advisory Council
1992 – Present – Cal Poly Dairy Science Advisory Committee
2000 – Present – Sacred Heart School Foundation**

Biographical Sketch

Graduated with Honors California State Polytechnic University – San Luis Obispo

Married – wife Jacqueline

Two children – Angela Cotta Casey; Michael

Enjoys hunting, collecting art and rare books

Owner – Cotta Farms (Almonds) – Partner Terra Bella Farms (Almonds)

Richard has spent his entire career in the dairy industry in virtually all aspects from the dairy farm to dairy processing and dairy politics. He has been a speaker at many national and international dairy meetings and University seminars. He has testified before the U.S. Congress and the State Legislature on behalf of the dairy industry.